

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2822-01  
Bill No.: SB 737  
Subject: Employees-Employers; Employment Security; Labor and Industrial Relations  
Dept., Unemployment Compensation  
Type: Original  
Date: February 3, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
Unemployment compensation Trust Fund	\$62,620,452	\$115,737,377	\$106,993,759
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$62,620,452</b>	<b>\$115,737,377</b>	<b>\$106,993,759</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government *</b>	<b>\$221,317</b>	<b>\$533,040</b>	<b>\$614,912</b>

\* excludes interest and debt service charges.

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of the State Treasurer**, the **Missouri Senate**, the **Office of the Secretary of State**, the **Office of the Governor**, the **Office of the Attorney General**, the **Office of Administration**, **Division of Accounting** and **Division of Personnel**, the **Office of the Lieutenant Governor**, and the **Missouri House of Representatives**, assume this proposal would have no, or minimal impact on their organizations.

Officials from the **Missouri Department of Transportation** assume this proposal would have an unknown impact on the Highway Fund and on Local Government funds if employer contributions are increased.

ASSUMPTION (continued)

Officials from the **Department of Labor and Industrial Relations** (DOL) stated that governmental agencies and not-for-profit organizations have the option to reimburse the trust fund in lieu of making quarterly contributions. To more clearly define the impact, DOL has estimated the costs as distributed among: (1) cost to the Unemployment Compensation Trust Fund (UCTF) and (2) cost to local government. It is DOL's understanding that the Office of Administration is responding as to the impact of this proposal on state government.

1. The maximum weekly benefit amount (MWBA) is currently a set figure of \$250. This proposal would retain the current MWBA, and would add some provisions that would reduce benefit payments. Among them are the elimination of compensation for waiting week credits (approx. \$23.3 million), changes to the provision related to misconduct connected with the work (\$32.3 million), and making termination, severance and elected official pay countable as wage when calculating the claimant's weekly benefit amount (unknown).
2. This proposal would also include language requiring DOL to cross-check Missouri unemployment compensation recipients against any federal new hire database. The federal new hire list is not currently available, and would require congressional authorization to provide access to the states. Therefore, this language is only enabling and no fiscal effect can be determined.

Based on 2002 claims data, and considering the proposal would be effective with claims beginning January 2005, the estimated decrease in paid benefits for the provisions listed above would be a savings to the UCTF of:

\$28,299,500 for the last six months of FY 2005,  
\$56,099,500 FY 2006, and  
\$55,600,000 for FY 2007.

Included in these amounts is a savings to local government of:

\$606,741 for the last six months of FY 2005,  
\$1,202,773 for FY 2006, and  
\$1,192,064 for FY 2007.

ASSUMPTION (continued)

3. When a new acquisition rate is lower, most employers choose to pay the contributions due at the existing higher rate rather than undertaking the task of breaking down the taxable payroll and submitting separate reports as allowed by existing law. When the new rate goes up, the employer must break down the taxable payroll and report it on two separate wage reports because there is no provision that allows for waiving the additional tax due. Some employers have been required to submit as many as six contributions reports for one quarter, because they experience mergers and acquisitions during the quarter.

The Department believes the overall impact of this portion of the proposal to the UCTF would be minimal.

4. Under current law, the Department projects benefits would be paid in the amount of \$564,778,744 for 2005, \$537,568,313 for 2006 and \$554,680,999 for 2007. Based on the current contributions rate schedule, Contribution rate Adjustment (CRA) and Taxable Wage Base (TWB) of \$8,500 for 2005, \$9,000 for 2006 and \$9,500 for 2007, it is projected DOL would receive approximately \$412,687,650 in contributions for 2005, \$438,372,684 for 2006 and \$467,924,180 for 2007 leaving a negative UCTF balance of (\$480,790,580) for 2005, (\$524,650,449) for 2006 and (\$397,453,429) for 2007. The solvency would continue to worsen each year because the current factors establishing the rate schedule, CRA trigger and TWB are not sufficient to maintain or replenish the fund.
5. This proposal would increase the TWB to \$9,000 upon the "effective date" (August 28, 2004). This does not fall on a calendar year quarter change, therefore for the purposes of calculating the fiscal effect of this proposal DOL has increased the TWB to \$9,000 on October 1, 2004 (the first day of the next calendar quarter). The proposal also changes the dollar amount that trigger increases and decreases to the TWB however, these changes will have no near term effect.

Based on the proposed changes to the TWB, and assuming all other factors remain unchanged, it is projected DOL would receive approximately \$467,423,335 for 2005, \$499,621,190 for 2006 and \$512,155,532 for 2007. This would leave trust fund balances, including outstanding loans and bonded indebtedness, of (\$351,005,900) for 2005, (\$296,347,260) for 2006 and (\$241,081,769) for 2007.

ASSUMPTION (continued)

The estimated increase in contributions received would generate an estimated income to the UCTF of:

\$34,320,952 for the last six months of FY 2005,  
\$59,637,877 FY 2006, and  
\$51,393,759 for FY 2007.

Included in these amounts is a cost to local government for increased contributions of:

\$385,424 for the last six months of FY 2005,  
\$669,733 for FY 2006, and  
\$577,152 for FY 2007.

The combined fiscal impact of the various provisions of this proposal would create a net income to the UCTF of \$62,620,452 for the last six months of FY 2005; \$115,737,377 FY 2006 and \$106,993,759 for FY 2007.

These totals do not take into account differences in estimated interest and debt service charges Missouri employers would be assessed for outstanding Title XII loans and bonded indebtedness. Implementation of these provisions would cause an estimated increase in assessment charges totaling \$16,531,256 in 2005, \$24,546,902 in 2006 and \$31,868,021 in 2007. At the end of 2007 the amount of outstanding bonded indebtedness would be \$366,762,969.

**Oversight** assumes the assessments for interest and debt service charges would be passed through the Unemployment Compensation Trust Fund and have no net impact on that fund.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
<b>UNEMPLOYMENT COMPENSATION TRUST FUND</b>			
<u>Income</u> - Division of Employment Security			
Increased contributions	\$34,320,952	\$59,637,877	\$51,393,759
<u>Cost Reduction</u> - Division of Employment Security			
Decreased benefit payments	<u>\$28,299,500</u>	<u>\$56,099,500</u>	<u>\$55,600,000</u>
<b>ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND</b>	<b><u>\$62,620,452</u></b>	<b><u>\$115,737,377</u></b>	<b><u>\$106,993,759</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
<b>LOCAL GOVERNMENTS</b>			
<u>Cost Reduction</u>			
Decreased benefit payments	\$606,741	\$1,202,773	\$1,192,064
<u>Cost</u> - Increased contributions *	(\$385,424)	(\$669,733)	(\$577,152)
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *</b>	<b><u>\$221,317</u></b>	<b><u>\$533,040</u></b>	<b><u>\$614,912</u></b>

\* excludes interest and debt service charges.

FISCAL IMPACT - Small Business

This proposal would affect small businesses as a result of direct changes to their unemployment tax rates, interest charges, and changes in benefits paid to former employees which in turn affect the businesses' experience ratings.

## DESCRIPTION

This proposal would change several portions of Missouri employment security law:

- The Division of Employment Security would be required to compare claimant information against any available federal database for new hire and wage information.
- Misconduct would be defined.
- The Taxable Wage Base and Contribution Rate Adjustment factors used in computing unemployment taxes would be expanded to provide greater flexibility in maintaining the solvency of the Unemployment Compensation Trust Fund.
- The state Maximum Weekly Benefit Amount would be increased.
- Claimants will not be considered ineligible for benefits if they are temporarily unemployed through no fault of their own or if they are participating in a state-approved drug or alcohol treatment program.
- An offer of work would be defined.
- The method for determining a composite contribution rate for an acquired business would be changed.
- Misconduct disqualification provisions would be added, and additional disqualification penalties would be required for multiple misconduct disqualifications.
- Procedures would be established for issuing bonds to replenish the Unemployment Compensation Trust Fund.
- Penalties for inappropriate release of employment security information would be provided.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Governor  
Office of the Lieutenant Governor  
Office of the Secretary of State  
Office of the Attorney General  
Office of the State Treasurer  
Missouri Senate  
Missouri House of Representatives  
Office of Administration  
    Division of Accounting  
    Division of Personnel  
Department of Labor and Industrial Relations  
Missouri Department of Transportation



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